

Instructions For Preparation of Alabama
Partnership/Limited Liability Company
Return of Income**2003**

Attach A Copy of Federal Form 1065, U.S. Partnership Return of Income

The Alabama Partnership/Limited Liability Company Income Tax Return cannot be considered complete if **Federal Form 1065**, stating all income and deductions, is not attached. Failure to attach Form 1065 will constitute improper preparation subjecting the return to treatment as a delinquent return.

Voluminous depreciation and like schedules may be omitted; however, a list of all omitted schedules must be attached and must be presented if requested.

LIABILITY FOR FILING RETURNS. Every partnership/limited liability company, syndicate, pool, and joint venture shall submit a return to the Alabama Department of Revenue for each taxable year stating specifically the items of its gross income and the deductions allowed by Alabama Income Tax Law, and shall include on the return the names, addresses, and social security numbers of the members who would be entitled to share in the net income, whether or not distributed, and the amount of the distributive shares of each individual. The furnishing of the social security numbers of the members of the partnership is required and will be used for identification purposes.

The partnership must be a bona fide partnership. If it appears from the relationship between the individual partners or other circumstances that the partnership is not bona fide, but is claimed merely for the purpose of reducing taxes, the partnership may be challenged. Proof of the existence of a bona fide partnership will then be required.

FOREIGN PARTNERSHIP. A partnership/limited liability company maintaining a home office outside Alabama (designated foreign company) and doing business both within and without the State should file a return on Form 65, and attach a rider showing the Alabama income, deductions, and net income attributable to Alabama either using direct accounting method or proration method corresponding to books and accounting system maintained by the company. If direct accounting method is used by a foreign company, it must first obtain approval from the Alabama Department of Revenue. If the proration method is used, Alabama net income shall be determined as provided for Multistate Corporations in regulations of Code Section 40-27-1. The names and addresses of the individual members, whether resident or nonresident of Alabama, and each member's share of the adjusted gross income, whether distributed or not, should be entered on Schedule K.

ACCRAUAL OR CASH BASIS INCOME. If the books of account are kept on an accrual basis, report all income accrued even though it has not been actually received or entered on the books. If the books are kept on an accrual basis, the accrued expenses should be used. If the books are not kept on the accrual basis, report all income received or constructively received such as bank interest, and also include all expenses actually paid.

SIGNATURES AND VERIFICATION. General Member. Form 65 is not considered a return unless it is signed. One general member must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information. Generally, anyone who is paid to prepare the return must sign the return and fill in the other blanks in the **Paid Preparer's Use Only** area of the return.

The preparer required to sign the return MUST complete the required preparer information, and

• *Sign, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)*

• *Give the company a copy of the return in addition to the copy being filed with the Alabama Department of Revenue.*

TIME AND PLACE FOR FILING. Returns made on the basis of calendar year shall be made on or before the 15th day of April following the close of the calendar year. Returns made on the basis of fiscal year shall be made on or before the 15th day of the fourth month following the close of the fiscal year. If the 15th falls on Saturday or Sunday, the following Monday shall be the last day for filing this return. Mail the return to: **Alabama Department of Revenue, Individual and Corporate Tax Division, P.O. Box 327441, Montgomery, AL 36132-7441.** If the return cannot be filed by the due date, an Application for Extension (Form 4868A) should be filed with the Alabama Department of Revenue. **(NOTE: FEDERAL EXTENSIONS WILL NOT BE ACCEPTED.)** Except in the case of taxpayers who are abroad, no such extension shall be for more than six months.

INFORMATION AT THE SOURCE. Every company, association, or agent making payments of salaries and wages or similar compensation must file Forms A-2 (or W-2) on or before February 28, 2004. Also, every partnership, association, or agent making payments of interest, rents, premiums, annuities, compensations, remunerations, emoluments or other fixed or determinable gains, profits, and income of \$1,500.00 or more to any person, partnership, or fiduciary during the taxable year is required to make an information return on Forms 96 and 99 showing the amount of such payment and the name and address of each recipient. These forms may be obtained from the **Alabama Department of Revenue, Income Tax Forms, P.O. Box 327470, Montgomery, AL 36132-7470**, and should be filed with the Alabama Department of Revenue, Montgomery, Alabama, on or before March 15, 2004.

Specific Instructions

SCHEDULE A — Computation of Income and Adjustments

Line 1. Enter on this line the "Ordinary income (loss) from trade or business activities" as shown on page 1 of Federal Form 1065.

Line 2. All interest received or credited to the partnership during the taxable year on bank deposits, notes, mortgages, bonds, etc. is taxable except:

- (1) Interest upon obligations of the United States or its possessions;
- (2) interest on obligations of the State of Alabama and any county, municipality, or other political subdivision thereof.

Interest received on the bonds of all other states and their political subdivisions is taxable under Alabama Law.

Line 3. All interest taxable to the State of Alabama that is not included in income on Federal Form 1065 should be entered on this line. Enter the total amount of interest that is taxable to Alabama, but is exempt for federal purposes. This includes interest on municipal bonds of states other than Alabama.

Line 4. All dividends, including liquidating dividends received, are taxable. Gain or (loss) on liquidating dividends should be reported on line 9.

All dividends which are taxable to the State of Alabama and are not included as income on Federal Form 1065 should be entered on this line.

Line 5. The additional depreciation on I.R.C. § 179 property placed in service prior to 1990 should be entered on this line.

Line 6. The jobs credit adjustment allowed on Federal Form 1065 should be entered on this line. This is computed on Federal Form 5884 and shown as a reduction to salaries/wages on Federal Form 1065, if applicable.

Line 7. Net income or (loss) from rental activities should be entered on this line.

Line 8. Net gain or (loss) under I.R.C. § 1231 should be entered here. Do

not include casualty losses.

Line 9. Net short-term or long-term capital gain or (loss) should be entered here.

Line 10. Net portfolio income should be entered here. Do not include investment interest expense which is reported on line 16.

Line 11. Any income not previously reported should be entered here. A schedule should be attached to explain this income. Any irrevocable trust losses included in federal ordinary income should be added back here.

Line 12a. Total income (lines 1-11) should be entered here.

DEDUCTIONS

Line 13. Charitable contributions should be reported here.

Line 14. Section 179 expense should be reported here.

Line 15. Deductions not previously reported should be reported here.

INVESTMENT INTEREST

Line 16. Interest expense on investment debts should be reported here.

Line 17. Interest income from investments not included on lines 9 and 10 above should be reported here.

Line 18. Investment interest expenses from lines 9 and 10 above should be reported here.

Line 19. Section 40-18-190 establishes a 20 year capital credit for certain new capital investments. Prior registration and approval of the Alabama Department of Revenue is required. The capital credit is limited to the recipient's tax liability and is applied **after all other deductions, losses, or credits have been taken**. Form K-RCC must be attached to receive the credit. If the partnership is involved in a qualified project, enter the project ID and amount of credit available in 2003.

If you prefer for the department to contact your tax preparer, please give permission to do so by checking the box above the signature line.

COMPLETE SCHEDULES B, C, AND D ONLY IF THIS IS A MULTISTATE OPERATION.

SCHEDULE B — Allocation of Nonbusiness Income, Loss, and Expense

Enter on Schedule B all items of nonbusiness income, nonbusiness loss, and nonbusiness expense. These items are excluded from apportionable income and are allocated either to Alabama or to another state. See Regulation 810-3-31-.02 for a discussion of the classification of income and expense into business and nonbusiness categories and the assignment of nonbusiness items to specific jurisdictions.

Beside a-h on Schedule B, enter the item description. In Column A enter the total amount of nonbusiness gross income or (loss) to be excluded from apportionable income. In Column B enter the amount of nonbusiness gross income or (loss) allocable to Alabama.

Enter total nonbusiness expense in Column C and any allocable to Alabama in Column D. Nonbusiness expense may exceed nonbusiness income and, in fact, may be present when there is no nonbusiness income. Expenses which are not directly identifiable as business or nonbusiness must be prorated. See Regulation 810-27-1-4-.01(d)(2). The method for prorating interest expense is to multiply total interest expense deducted on the federal return by a fraction, the numerator of which is the average amount invested in nonbusiness assets at cost and the denominator of which is the average amount invested in total assets at cost. Investments originally acquired by means of stock for stock swaps may be eliminated from both the numerator and the denominator of the nonbusiness interest expense proration factor.

Subtract Column C from Column A, and enter the remainder in Column E. Subtract Column D from Column B, and enter the remainder in Column F.

Add lines a through h in Columns E and F, and enter the totals on line 2. Carry the total of Column E to page 3, Schedule D, line 2. Carry the total of Column F to page 3, Schedule D, line 6.

SCHEDULE C — Apportionment Factor Schedule

The partnership/limited liability company business activity in Alabama is represented by the apportionment percentage. Except for special cases provided for in Regulation 810-27-1-4-.18, the apportionment factor consists of the average of three other factors: property, payroll, and sales. See Regulation 810-27-1-4-.10 for detailed instructions regarding the items to be included in the numerator and the denominator of each of these factors.

PROPERTY FACTOR

In the appropriate columns, enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business (apportionable) income.

Line 1. Inventories

Line 2. Land

Line 3. Furniture and fixtures

Line 4. Machinery and equipment

Line 5. Buildings and leasehold improvements

Line 6. Property financed through industrial development boards or by industrial revenue bonds issued by municipalities. **All Industrial Development Board property utilized by the taxpayer will be included at its original cost basis.**

Line 7. Government Property. **All government property (whether local, state, or federal), when such property is made available for use by the taxpayer, will be reported at its current fair market value.**

Line 8. Any other real or tangible personal property used in production of business income.

Line 9. Any other real or tangible personal property used in production of business income.

Line 10. Less Construction in progress (if included in the amounts on lines 1 through 9).

Line 11. Enter in each column the totals of lines 1 through 10.

Line 12. Enter in the appropriate column the average value of property in Alabama and Everywhere. See Reg. 810-27-1-4-.12 for rules regarding computations other than beginning and end of year values.

Line 13. In the Beginning of Year columns, enter the amount of expense for the rental of real or tangible personal property used in the production of business income in Alabama and Everywhere. Annualize for short-period returns. Multiply the annual rent expense by 8, and enter the result in the End of Year column. This is the capitalized rental value.

Line 14a. Add the amounts on lines 12 and 13 in the End of Year column for Alabama.

Line 14b. Add the amounts on lines 12 and 13 in the End of Year column for Everywhere.

Line 15. Divide the amount on line 14a by the amount on line 14b, and enter the percentage on line 15. This is the ALABAMA PROPERTY FACTOR.

PAYROLL FACTOR

Line 16a. Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama.

Line 16b. Enter the amount of wages or other compensation paid to employees for the production of business income everywhere. (Include officers' salaries.)

Line 16c. Divide the amount on line 16a by the amount on line 16b, and enter the percentage on line 16c. This is the ALABAMA PAYROLL FACTOR.

SALES FACTOR

Line 17. Enter gross receipts from Alabama destination sales except sales to the U.S. government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations both within and without Alabama.

Line 18. Enter the amount of sales shipped from an Alabama origin to any

state or foreign country where this company is not taxable. Also enter total sales to the U.S. government shipped from Alabama.

Line 19. In the Alabama column enter the total of lines 17 and 18. In the Everywhere column enter total sales for everywhere. If this amount does not correspond with line 1 of Federal Form 1065, attach an explanation and reconciliation.

Line 20. Enter in the appropriate columns the gross receipts from the sale or disposition of assets used in the business. See Reg. 810-27-1-4-.18(c) for exclusion of amounts which would distort the factor.

Line 21. Enter in the appropriate columns the gross business interest income.

Line 22. Enter in the appropriate columns the gross business income from rents.

Line 23. Enter in the appropriate columns the amounts of other business gross receipts, and identify the nature of such receipts and their location on the federal return.

Line 24a. Total the Alabama column for lines 19 through 23.

Line 24b. Total the Everywhere columns for lines 19 through 23.

Line 24c. Divide the amount on line 24a by the amount on line 24b, and enter the percentage on line 24c. This is the ALABAMA GROSS RECEIPTS FACTOR.

Line 25. Add lines 15, 16c, and 24c. Divide by 3. This is the ALABAMA APPORTIONMENT PERCENTAGE. Enter here and on line 4, Schedule D. (If any factor is not utilized in the production of income, it shall be eliminated and the denominator reduced accordingly.)

SCHEDULE D — Apportionment and Allocation of Income to Alabama

Line 1. Enter amount of income or (loss) from line 12a, Schedule A.

Line 2. Enter nonbusiness income or (loss) from column E, line 2, Schedule B.

Line 3. Subtract line 2 from line 1.

Line 4. Enter Apportionment Factor from line 25, Schedule C.

Line 5. Multiply amount on line 3 by the percentage on line 4.

Line 6. Enter nonbusiness income or (loss) allocated to Alabama from column F, line 2, Schedule B.

Line 7. Add lines 5 and 6. This is your Alabama Income.

SCHEDULE E — Additional Information Required

All partnerships must complete Schedule E giving the information requested in lines 1 through 7.

SCHEDULE K — Member's Shares of Income, Expenses, and Deductions

THIS SECTION MUST BE COMPLETED AND MUST CONTAIN ALL INFORMATION REQUESTED.

Partnerships as such are not subject to Alabama income tax. Each partner's share of the adjusted income or (loss) of the partnership is taxable to each partner or member (including corporations) of the partnership, whether or not distributed by the partnership.

A partnership/limited liability company is not allowed the deduction for net operating losses.

Enter names, addresses, and social security numbers or corporation Federal employer's identification numbers on the lines provided on page 6, and extend in the proper column each member's share of the adjusted income, expenses, and deductions, whether distributed or not. This schedule should also show complete information with respect to all members who had any interest whatever during any portion of the taxable year. In order that each member's individual (or corporate) return may be associated with this return, please recheck all social security and **corporation Federal employer's identification numbers** for correctness before mailing the partnership return.

In order that all partners (members) may properly comply with Alabama Income Tax Code, the company shall advise them of their responsibility to file Alabama Income Tax returns reporting their share of income and deductions from the partnership.

Individual Alabama residents should file using Form 40 and nonresidents using Form 40NR. Corporations should file using Form 20C or Form 20S. The necessary forms and instructions may be obtained from our Web site at www.ador.state.al.us or by writing to the Alabama Department of Revenue, P.O. Box 327470, Montgomery, AL 36132-7470.

Alabama Enterprise Zone Act Credit: To stimulate business and industrial growth in depressed areas of the State, Alabama offers certain tax credit incentives to corporations, partnerships, and proprietorships which locate or expand within a designated enterprise zone. In order to qualify for these tax credits, a business **must be located within a designated zone** and meet certain other requirements of the Alabama Department of Economic and Community Affairs.

If a credit is earned by a partnership/limited liability company, the credit will be distributed to each partner based on the percentage of ownership. The company should advise each partner of the amount of his/her income subject to this credit.

For further information regarding the "Alabama Enterprise Zone Act" and the necessary forms to claim this credit you should contact:

Alabama Department of Economic and Community Affairs

401 Adams Avenue

P.O. Box 5690

Montgomery, AL 36103-5690

Telephone (334) 242-5100

— or —

Alabama Department of Revenue

P.O. Box 327001

Montgomery, AL 36132-7001

Telephone (334) 242-1175

COMPOSITE FILING FOR NON-RESIDENT MEMBERS

For tax years beginning after December 31, 2000, all partnerships/LLC's are required to pay the tax on Alabama source income for all nonresident members. This payment is due by the 15th day of the fourth month following the close of the business year. This payment is to be remitted on Form 65C which is to be accompanied by Schedule 65K1C. **These forms are to be mailed separately from Form 65 and to a separate address.** The tax rate for corporate members is 6.5% on Alabama source income and is 5% for all other members on the Alabama source income.

For tax years beginning after December 31, 2001, members of partnerships/LLC's can option out of the composite filing requirement by filing Schedule NROA with the partnership/LLC with whom they are a member. The partnership/LLC is then required to submit these forms to the Alabama Department of Revenue with the Form 65. Failure to file Schedule NROA will be an automatic option to participate in the composite filing.

If the partnership has no Alabama source income or a loss, no Form 65C should be filed. A composite partnership return **cannot** be used to establish a net operating loss. The members of the partnership must file their respective tax returns to establish any loss that can be used to offset income in subsequent years.

Alabama Department of Revenue

Composite Payment

P.O. Box 327444

Montgomery, AL 36132-7444